The Manitoba Public Insurance Corporation

1986 Annual Report

FOR THE FISCAL YEAR ENDED OCTOBER 31, 1986

MANITOBA

MINISTER RESPONSIBLE FOR
THE MANITOBA PUBLIC INSURANCE CORPORATION

Winnipeg, Manitoba
March 6, 1987

To His Honour
The Honourable George Johnson
Lieutenant-Governor of the Province of Manitoba

May It Please Your Honour:

I have the honour to submit the Annual Report of The Manitoba Public Insurance Corporation for the year ended October 31, 1986, in accordance with Section 37(1) of the Manitoba Public Insurance Corporation Act.

Respectfully submitted,

John M. Bucklaschuk

Honourable John M. Bucklaschuk
Chairperson and Minister Responsible for
The Manitoba Public Insurance Corporation

Fifteenth Annual Report

FOR THE FISCAL YEAR ENDED OCTOBER 31, 1986

Contents

Transmittal Letter 2
Chairperson's Message 4
President's Message 5
The Insurance Industry
– A Year of Challenge 6
Manitoba's Insurance Company 8
The Financial Year In Review 12
– Automobile Insurance Division
– Distribution of the Dollar
– General Insurance Division
– Reinsurance Assumed
Five Year Comparison of Financial Statistics ... 13
– Automobile Insurance Division
– General Insurance Division
The Language of Insurance 14
Board of Directors/Corporate Officers
Administrative Offices and
Claims Centres 16
Financial Statements
Auditors' Report 17
Statement of Operations
– Automobile Insurance Division 18
– General Insurance Division 19
Balance Sheet 20
Retained Earnings (Deficit) 22
Changes in Cash and
Short-Term Investments 23
Schedule of Expenses Incurred 24
Schedule of Investments 25
Notes to Financial Statements 30

Chairperson's Message

This annual report marks The Manitoba Public Insurance Corporation's 15th year of serving the insurance needs of Manitobans. It has been a challenging year for the Corporation and one which has tested the strength of the entire insurance industry.

A casual observer may find it difficult to assess the unsettling trends which have undermined the financial performance of property/casualty insurers throughout the world. This report, which includes a glossary of common insurance terms, is designed to provide a clearer understanding of the current state of the industry, while also examining the development of Manitoba's own insurance corporation, its present activities and its strategic plans for the future.

During the year under review, MPIC recorded disappointing financial results, highlighted by soaring claims costs, unacceptable loss ratios and generally poor market conditions. Despite this uncertainty, however, the Corporation continues to provide high-quality insurance coverages to the people of Manitoba, both in the automobile and general insurance markets. At the same time, clients receive prompt and convenient service at MPIC's 18 claims locations across the province.

Many of these accomplishments can be credited to the experience and expertise of the Corporation's 1,036 employees and 379 agents, who have earned a well-deserved reputation for professionalism and dedication.

In contrast to increases in automobile insurance premiums ranging up to 33 per cent in other jurisdictions, the public insurance system has enabled Manitoba motorists to enjoy rates which are among the lowest in North America. Continuing a process which was begun in 1983, when differences in disability benefits and drivers' insurance premiums for males and females were eliminated, the Corporation also introduced a greater degree of equity into the assessment of vehicle insurance premiums in 1986 by removing age, sex and marital status as rating factors.

Since its formation in 1975, MPIC's General Insurance Division has also grown to become the largest writer of property/casualty insurance in the province. Of particular significance is the fact that the Division has frequently been able to offer liability insurance protection to numerous Manitoba businesses and non-profit institutions at a time when similar organizations in other provinces have encountered great difficulty in obtaining such coverage.

Together with this commitment to service, the Corporation has fulfilled its broader mandate by actively promoting traffic safety through a wide range of community programs. In view of escalating accident frequency, these initiatives took on even greater importance during the year, when a total of $1.5 million was invested in such programs as High School Driver Education, the ALIVE public awareness campaign, the donation of infant restraint seats to service clubs throughout the province and financial support of the Manitoba Safety Council.

In keeping with the Corporation's responsibility to operate as a self-sufficient agency of the Crown, MPIC also contributes to the economic base of cities, towns and villages throughout the province. Schedule 2 of this report, for example, provides a detailed listing of schools, municipalities, hospitals and other health care institutions which have benefited from the development capital supplied through MPIC's long-term Manitoba-based investment portfolio, which now totals $239.2 million. In addition, the Corporation paid grants in lieu of taxes totalling $605,000 toward the cost of municipal and school services in areas where it conducts business. During the 1985-86 fiscal year, more than $8 million was also paid in taxes assessed under the Insurance Corporations Tax Act.

As Chairperson of the Board of Directors, I would like to take this opportunity to thank the Members of the Board for their co-operation and assistance, particularly Ms. Nancy J. Sullivan, who served as Acting Chairperson from April to June, 1986. Special mention should be made of three members who left the Board in 1986 – The Honourable Leonard Harapiak, who served as Chairperson, Rev. Donald M. Malinowski, and Mr. Roland Laurin, one of the first worker-directors. I am also pleased to welcome two new members – Mr. Conrad Santos, M.L.A. for Burrows, and Mr. J. Scott Broughton of the Department of Crown Investments, who serves in an ex-officio capacity.

As the Corporation enters its 16th year of operations, it does so under the leadership of a new President and General Manager, Mr. Robert M. Silver. Mr. Silver, who has extensive experience in both the public and private sectors, brings to MPIC strong management capabilities, proficient financial skills and a keen understanding of government and regulatory environments.

The guidance, experience and hard work of MPIC's Board, employees and agents have contributed immeasurably to the Corporation's growth and I look forward to the future with a renewed sense of confidence and pride.

John M. Bucklaschuk

John M. Bucklaschuk,
Chairperson of the Board

President's Message

The Manitoba Public Insurance Corporation is at a crossroads in its evolution. As we look back on its 15-year history, it is evident that MPIC has established a role as a fundamentally stable, service-oriented organization. During this time of reassessment, however, it is not enough to rely on the accomplishments of the past as a blueprint for the future.

The Canadian insurance industry is slowly recovering from what has been described as the most serious economic downturn in its history. Financial solvency has become a watchword among insurance analysts, who point to the failure of several large companies as evidence of an industry "crisis".

Sound management, effective planning and a keen sense of purpose and direction are essential ingredients in the recovery plan of any large business enterprise. As MPIC emerges from a difficult financial year, these principles will be the guiding force behind our actions to revitalize the Corporation and to strengthen its long-term financial performance.

During the year under review, escalating claims costs placed severe pressure on MPIC's Automobile Insurance Division, resulting in a significant operating loss. Adverse weather conditions were a major factor contributing to an alarming increase of 19.9 per cent in claims costs. Of equal concern to the Corporation was a marked rise in the ratio of claims to total vehicle population, which further underlines the need for motorists to exercise caution and responsibility on the road.

A record 246,000 claims processed in 1986 severely strained the Division's capacity. This prompted an examination of several new initiatives which have the potential for enhancing existing service levels, while at the same time improving the overall efficiency of the Corporation's claims handling procedures.

For example, the concept of centralized claims reporting, which would result in the creation of a single computerized facility to accommodate all claims reported by telephone, is expected to offer greater convenience to motorists. The Corporation is also considering the implementation of an automated estimating system, which could significantly reduce the time needed to complete damage estimates.

MPIC's General Insurance Division, excluding reinsurance assumed business, experienced a net operating loss of $2.7 million for the 1985-86 fiscal year. In response to these difficulties, the Corporation has now adopted a series of measures designed to improve the Division's long-term financial outlook. A restructuring of senior management has resulted in the amalgamation of several departments in a move to increase efficiency. This streamlining of operations has been complemented by the continued development of an automated policy production system which will give the Corporation the capability to make increasing use of new technology to serve its client base.

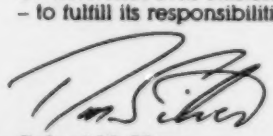
MPIC recognizes that the Division must be placed on a sound financial footing if it is to maintain its standing as one of the leading property/casualty insurers in the province. Realistic rating which properly reflects the nature and extent of the risk is an essential component in achieving this goal. Supported by responsible underwriting practices and a commitment to reducing expense ratios through automation, this strategy will ensure that the Division continues to provide a stable insurance market with the capacity to underwrite most classes of business.

In an effort to improve the long-term profitability of its assumed reinsurance portfolio, the Corporation also established an additional provision of $36.0 million for incurred but not reported claims arising principally from international assumed reinsurance treaties which have been cancelled. This provision represents a responsible and prudent approach to accounting for as yet unreported claims. A re-orientation of the current book of business to the more stable domestic market and a tightening of underwriting standards are also expected to have a positive impact on future financial results.

Although continued escalation of claims costs may signal the need for significant premium adjustments, MPIC has embarked upon a plan of action designed to stabilize current operations and to reinforce the Corporation's financial infrastructure. Immediate priorities will be to restore the General Insurance Division to a position of financial health, while at the same time developing innovative insurance coverages to meet the unique needs of Manitobans. Throughout the Corporation, a commitment to systems integration will result in the introduction of advanced technology to increase productivity, reduce expenditures and improve service.

A strong emphasis on strategic planning will also serve as the source of future initiatives aimed at maintaining the Corporation's competitive edge. This is particularly significant in light of recent developments which foreshadow the possibility of a major restructuring of the insurance industry as potential competitors explore new opportunities for further expansion.

While moving rapidly into this period of challenge and change, MPIC will continue to rely on the traditional cornerstones of its existence – integrity, trust and security – to fulfill its responsibilities to all Manitobans.



Robert M. Silver,
President & General Manager

The Insurance Industry – A Year of Challenge

The property/casualty insurance industry, both nationally and internationally, suffered a staggering financial setback in 1985. Canadian insurance companies were particularly hard hit as they experienced underwriting losses totalling $1.2 billion. This went far beyond even the record losses of 1984, which amounted to $876 million.

Higher reinsurance costs have played a critical role in the overall financial picture, particularly in the liability insurance market. The reinsurance market enables insurers to minimize their exposure to large claims by spreading their risks among a pool of other insurance companies. During the past several years, however, skyrocketing claims awards prompted many reinsurers to reduce their acceptance of certain types of risks, primarily those involving liability insurance with high limits of coverage.

A series of spectacular and widely-publicized catastrophes, both in Canada and other parts of the world, had a destabilizing effect on the insurance industry and point to the need for insurers to establish sufficient contingency and catastrophe reserves to cover the cost of claims arising from such incidents, which can have a devastating financial impact.

In the early 1980s, for example, a brief hailstorm which swept through Calgary caused widespread damage to homes and vehicles. Insurance claims totalled well in excess of $100 million, the largest payout of its type in Canadian insurance history. In Barrie, Ontario, a tornado on May 21, 1985, destroyed more than 250 homes in a few seconds and wreaked more than $150 million in damage. On the international scene, a number of U.S. insurance companies have made payments totalling about $580 million to a major asbestos manufacturer for damages resulting from delayed asbestos insulation poisoning. The manufacturer expects payments will eventually reach between $600 million and $700 million.

Despite these developments, industry experts are predicting recovery and describe the next few years as a convalescing period. This national recovery is likely to result in an overall increase in insurance premiums, which were seriously eroded by intense competition during the late 1970s, when many companies fell into the trap of "cash-flow" underwriting. With interest rates soaring, insurers deliberately underpriced their products in an effort to attract larger amounts of premium revenue for their investment portfolios. These companies soon found themselves in a severe cost squeeze, as interest rates rapidly declined in the ensuing years and competition made it impossible to restore premiums to a more realistic level.

The industry has cited various other reasons for the underwriting losses it has incurred, including recent court decisions which

A series of spectacular and widely-publicized catastrophes, both in Canada and other parts of the world, had a destabilizing effect on the insurance industry. Photo by Dirk Abenson

have broadened the definition of negligence in many jurisdictions, resulting in larger and more liberal claims settlements. In Brampton, Ontario, for example, a Supreme Court judge found the municipality of Brampton negligent for failing to take better precautions to safeguard an area used by young motorcyclists. A 14-year-old boy who suffered serious injuries in a dirt bike collision on the property was awarded a total of $6.3 million. The award is currently under appeal, but the industry has described the ruling as a trend-setting decision which will have a far-reaching effect on future claims settlements.

The growing potential for catastrophic losses has forced most primary insurers to increase premiums substantially to offset higher rates being charged by reinsurers or to decline risks altogether, leaving many policyholders to seek out alternate coverage. Because the public insurance program has brought a large measure of stability and independence to the Manitoba automobile insurance market, MPIC's Automobile Insurance Division has been relatively immune to these outside forces. The General Insurance Division, however, operates in a competitive environment and has therefore been influenced to a significant degree by the disturbing market trends which have affected the entire property/casualty industry. Nevertheless, the Division provided much-needed liability insurance protection to a wide variety of Manitoba businesses and non-profit organizations in 1986, including child care agencies, professional associations and health care institutions.

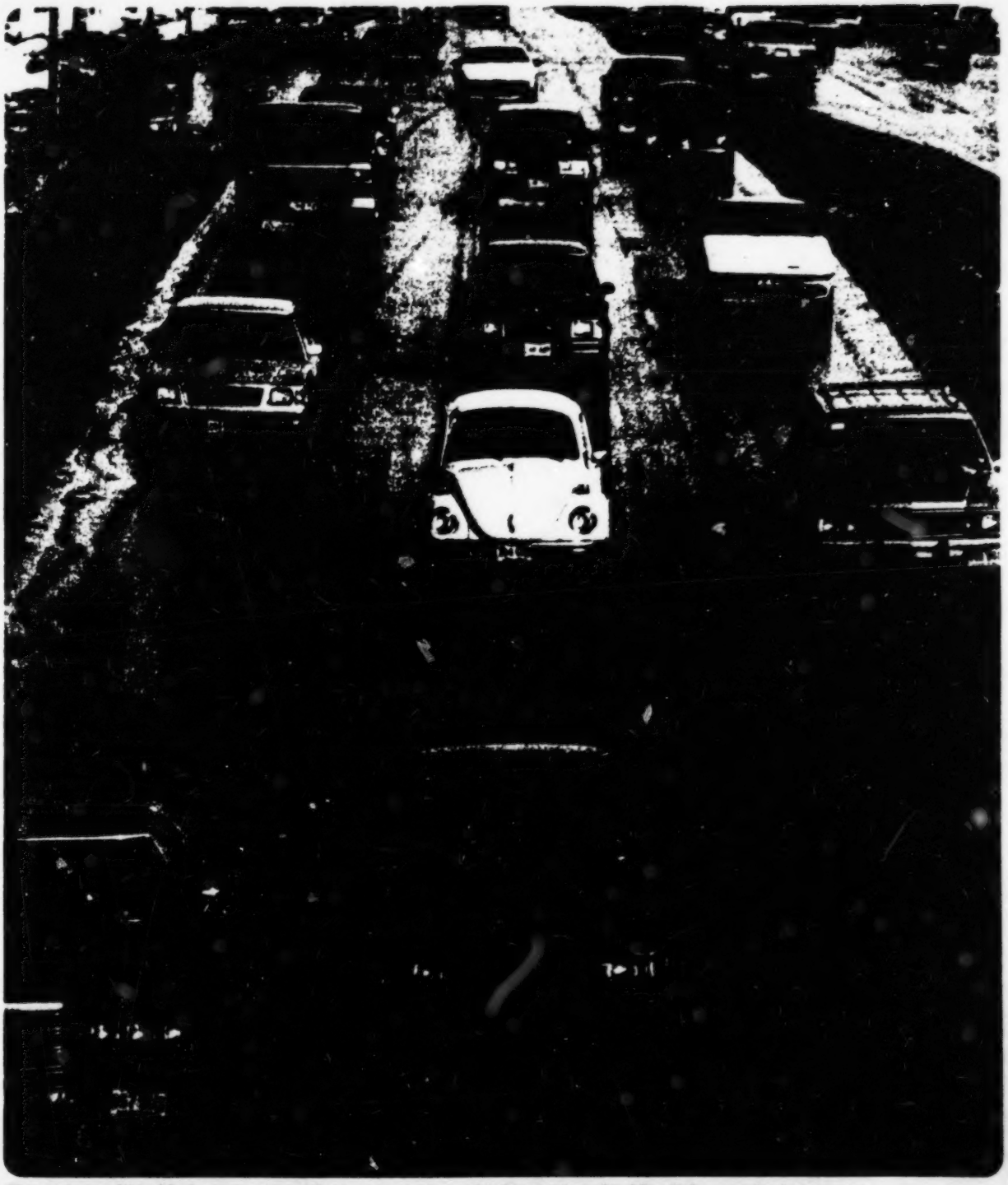
Much of the Corporation's success in serving this vital market is directly related to its practice of spreading a portion of the risk to other insurers through the process of ceded reinsurance. In the event of a large claim against a policy, MPIC also transfers part of the cost of settlement to the reinsurer, thus reducing the Corporation's overall liability.

Under a principle known as reciprocity, MPIC has been able to gain further leverage in the reinsurance industry because it also accepts the risks of other insurers in exchange for a premium. Since the Corporation is known and recognized as a participant in the reinsurance market, reinsurers have acquired more knowledge of MPIC's underwriting practices and standards and feel a greater degree of confidence in accepting Manitoba-based risks.

Reinsurance has enabled major insurers in Canada and the United States to underwrite risks which an individual company may not have the capacity to handle. This ultimately benefits the public by creating a wider and more secure market offering a broad range of insurance coverages, particularly in some of the more specialized fields, such as commercial and professional liability.

Crisis over liability insurance is no surprise
Small exporters scramble to find liability insurance
INSURANCE
Industry in a panic; liability rates soar
Insurance:
Insurance world quakes under the domino effect

Manitoba's Insurance Company



The universality of Autopac ensures that every motor vehicle registered in Manitoba carries insurance coverage, thus providing an adequate degree of compensation for all accident victims.

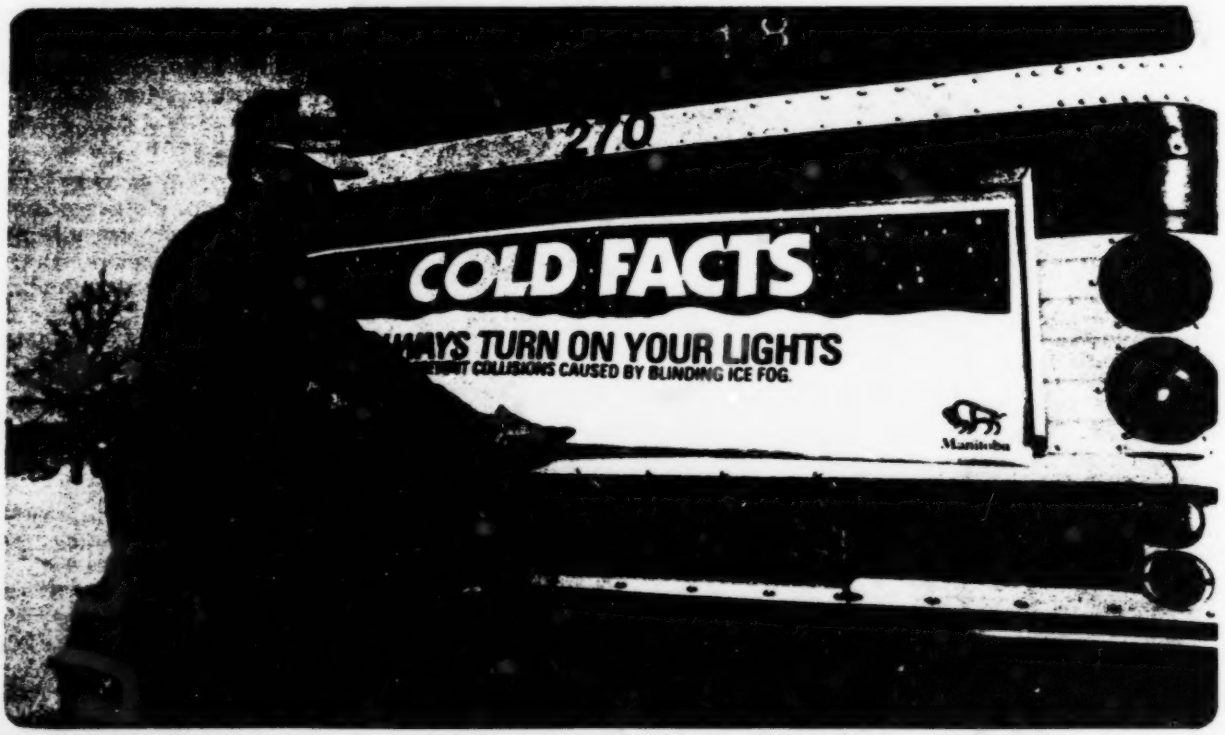
The Government of Manitoba established The Manitoba Public Insurance Corporation in 1971 to develop and administer a comprehensive automobile insurance program that would protect Manitobans against the high economic and social costs of motor vehicle accidents.

The need for such a program was clearly illustrated by published reports showing that many motorists were operating their vehicles with no insurance coverage and only a small minority had full protection. For example, 71 per cent had no medical payments insurance and 26 per cent did not insure their vehicles against collision damage. As well, large amounts of premium revenue were being invested outside of Manitoba and many motorists, particularly those under age 25, complained that premiums were unjustifiably high.

The underlying philosophy of the public insurance plan, which became known as Autopac, encompassed a series of broad principles:

- The program must be universal for all Manitoba vehicle owners and operators.
- The benefits must be available to all Manitobans suffering loss or damage from automobile accidents.
- The collection of premiums must be co-ordinated and integrated with the payment of driver's licence and vehicle registration fees.
- The plan must return a greater portion of the insurance premium dollar to policyholders in the form of claims benefits.
- Premiums collected and surpluses earned must be invested in the province of Manitoba for the benefit of all residents.

During its first full year in operation, MPIC processed a total of 127,400 claims at a total cost of $37.8 million, including expenses, while premiums earned and investment income amounted to $39.5 million. All vehicles registered in the province carried a legal minimum of third party liability and collision coverage and accident victims qualified for a comprehensive package of no-fault benefits, including medical expenses of up to $2,000 per person, total disability payments of $50 per week, partial disability payments of $25 per week and impairment benefits up to a maximum of $6,000.



MPIC's ALIVE safety information program encourages motorists to adjust their driving habits to cold weather conditions.

Manitoba's Insurance Company

Throughout the ensuing 15 years, the Corporation expanded at a steady rate to meet the growing demand for automobile insurance coverage. Premiums earned and investment income have increased more than 500 per cent, reaching a total of $252.0 million in the 1985-86 fiscal year, and claims volume has nearly doubled. In addition, Autopac accident benefits have been refined and enhanced to reflect changing economic conditions and to ensure that motorists are sufficiently compensated for their injuries. Medical expense benefits, for example, have risen to $20,000 per person, an increase of 900 per cent over the original amount. Total disability payments now stand at a maximum of $300 per week, an increase of 500 per cent, while partial disability payments have risen by 140 per cent to $60 per week.

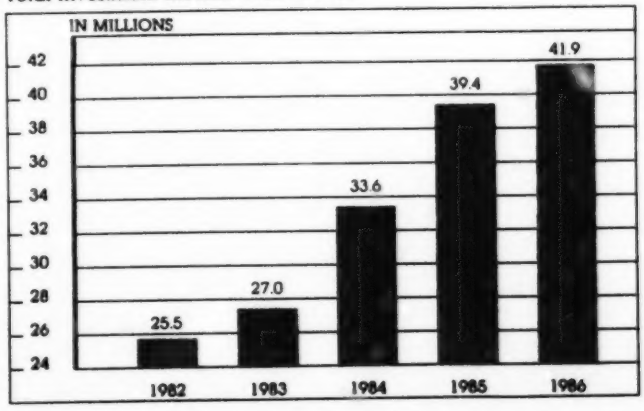
In recognition of its responsibility to provide for the continuing needs of Manitobans disabled in motor vehicle accidents, the Automobile Insurance Division established a Rehabilitation Unit within its Bodily Injury Claims Centre in 1986. This unit helps claimants to re-establish themselves in the work force by offering counselling services, referrals to vocational retraining programs and other support aimed at rehabilitating severely injured accident victims.

Today, MPIC takes pride in its administration of the Autopac plan, which has created a number of distinct advantages for Manitoba motorists:

- Integration of the vehicle insurance and registration systems has given the Corporation ready access to vehicle registration, claims and driver information. This has led to increased efficiency in the processing of claims and applications for insurance coverage.
- The economies of scale realized from the program have significantly reduced administrative costs. These savings have been passed on to motorists in the form of lower insurance premiums and increased benefits.
- The universality of the program ensures that every motor vehicle registered in Manitoba carries insurance coverage, thus providing an adequate degree of compensation for all accident victims.
- Investment income and surpluses earned from year to year are not paid as dividends to shareholders, but are returned to the automobile insurance fund, where they can be used to stabilize premiums and/or to increase benefits.

These efficiencies, coupled with the overall financial stability of the Corporation, enabled the Division to reduce basic Autopac premiums by 2 per cent in the 1985 registration year and to hold the line on most premiums in the following year.

Total Investment Income 1982 to 1986



Where M.P.I.C.'s Funds are Invested

Investment Category	Amount Invested (Thousands of $)	% of Total
Provincial		
Province of Manitoba	$ 88,808	32
Manitoba Hydro-Electric Board	23,222	8
Manitoba Telephone System	21,317	8
Ontario Hydro-Electric Commission	25,417	9
Hospitals	44,368	16
Municipal	30,790	11
Schools	30,720	11
Federal	14,884	5
TOTAL	$279,516	100

Strong growth and increased levels of service have also characterized the history of the General Insurance Division, which was formed in 1975 to provide a full range of property/casualty coverages to the insurance-buying public in competition with other insurers.

The Corporation's staff of in-house adjusters, the largest of any insurer in the province, offer professional service to claimants throughout Manitoba. Complemented by the General Insurance Division's extensive portfolio of products specifically tailored to the needs of Manitoba homeowners, tenants, farmers, businesses and non-profit organizations, this has further stimulated consumer demand.

As a result of current market conditions, the Division has recently undertaken several initiatives designed to improve its long-term financial outlook. A policy management system, which will ultimately reduce the amount of time needed to issue policies to clients, also has the capability to rate policies automatically, thus leading to increased efficiency in production. As well, this automated system will eventually enable the Corporation to consider the concept of on-line interface with its network of agents across the province.

The Reinsurance Department, which operates as a self-sustaining entity within the General Insurance Division, has continued to re-orient the Corporation's assumed book of business toward domestically-based risks. The adoption of more stringent underwriting standards and the recruitment of a fully-trained staff of reinsurance professionals is also expected to contribute to an improvement in the Department's financial performance.

The Systems Department Info Centre trains employees in the use of new technology.

The Special Investigations Unit checks into losses of a suspicious nature in order to determine the cause of damage.

The Financial Year In Review

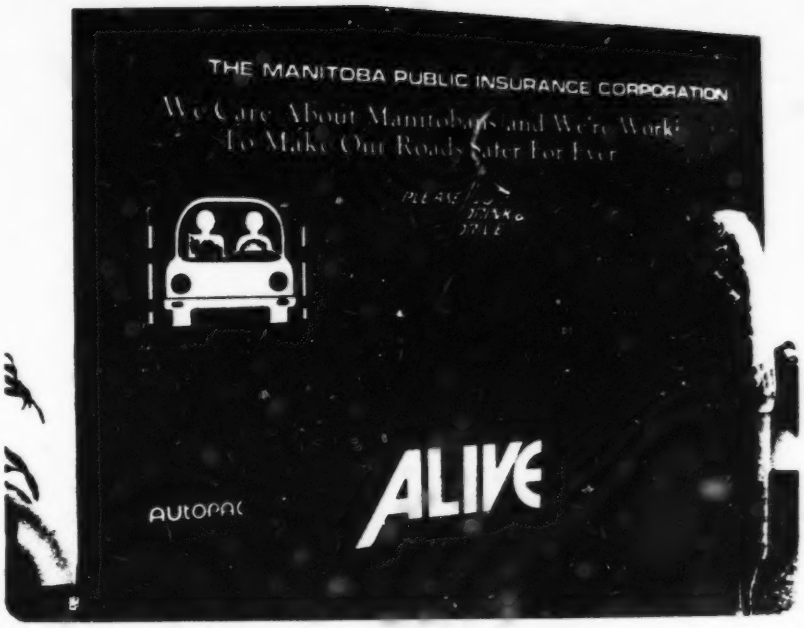
Automobile Insurance Division
With claims costs and the number of claims reaching record levels, the Automobile Insurance Division reported a net operating loss of $18.8 million for the fiscal year ended October 31, 1986.

Total earned revenues, including investment income of $36.7 million, rose from $236.1 million to $251.7 million, but the increase was more than offset by a 19.9 per cent rise in the cost of claims, from $203.9 million to $244.5 million. Administrative costs, commissions and premium taxes amounted to $26.0 million, resulting in total claims and expenses of $270.5 million.

In 1986, the Manitoba legislature passed the Judgment Interest and Discount Act, which provides for the payment of prejudgment interest on certain claims. As a result, the Corporation has established a provision of $5.3 million to recognize the estimated liability for prejudgment interest on unsettled claims as of October 31, 1986. This provision is included in the amount reported for claims incurred.

The Division processed a total of 246,000 claims during the year under review, compared with 224,000 in the previous year. Increases in the total vehicle population account for a portion of the higher volume, but the frequency of claims per 100 vehicles has also escalated at a rapid pace, rising from 32.8 in 1985 to 34.9 in 1986 – an increase of 6.4 per cent.

To offset its total operating deficit, the Division reduced its rate stabilization reserve by $13.5 million and its contingency reserve by $5.3 million. This allowed the Corporation to minimize the impact of the deficit on automobile insurance rates for the 1987-88 registration year.



MPIC actively promotes traffic safety through a wide range of community programs.

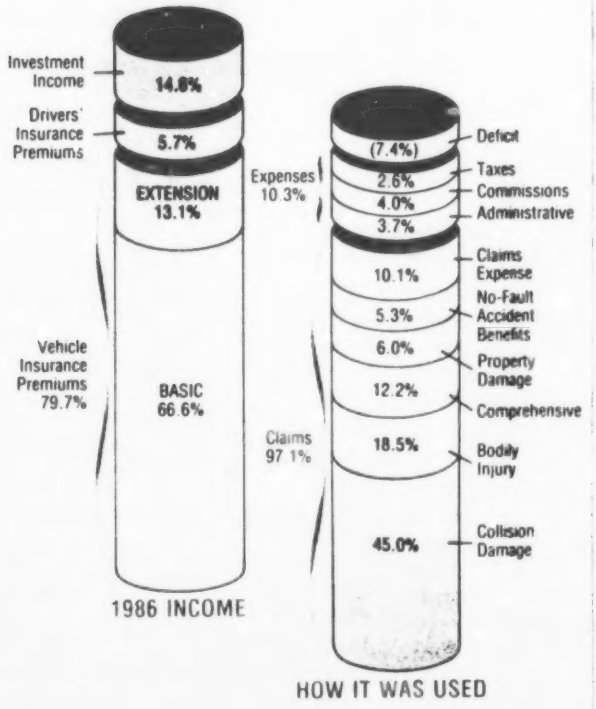
General Insurance Division
Excessively high loss ratios, fuelled primarily by a 47.3 per cent increase in total claims incurred, seriously hampered the financial performance of the General Insurance Division, which reported a net operating loss, excluding reinsurance assumed, of $2.7 million for the 1985-86 fiscal year.

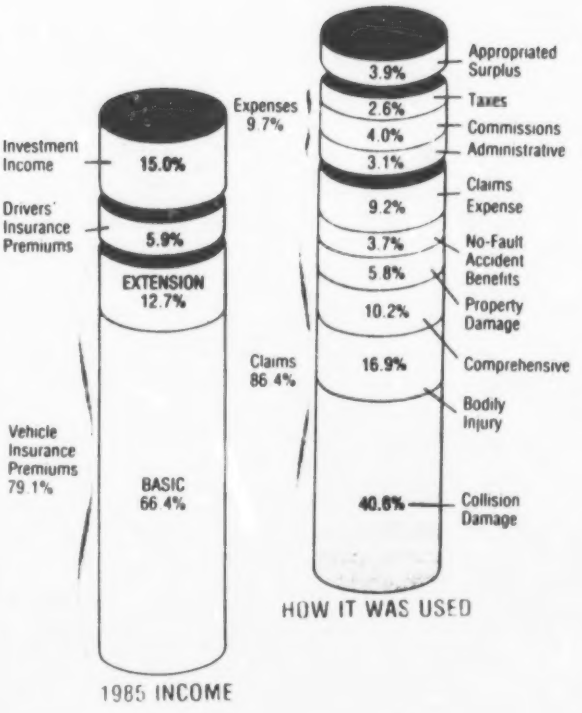
Total earned revenues, including investment income of $3.2 million, rose to $37.9 million from $26.3 million the previous year. Total expenses, including claims costs and administrative expenses, increased to $40.6 million, compared with $28.7 million in 1984-85.

Reinsurance Assumed
In 1984, the Corporation cancelled a number of assumed reinsurance treaties which had seriously affected the financial performance of the assumed book of business. It is anticipated that these treaties, which consisted of risks assumed from other reinsurers, have generated a large volume of claims which may be reported to MPIC between now and the year 2000.

During the year under review, the Corporation established an additional provision of $36.0 million for these incurred but not reported claims, principally for the cancelled assumed international book of business. In accordance with generally accepted accounting principles, the provision is recorded as claims incurred in this annual report. It is significant to note that MPIC has now withdrawn entirely from this unfavourable class of business. Further, since some claims which are reported may not be paid until after the year 2000, the assumed portfolio is expected to produce sufficient cash flow in the meantime to cover these costs.

Distribution of the Dollar





The Manitoba Public Insurance Corporation
Five Year Comparison of Financial Statistics

(Thousands of $)

		1986	1985	1984	1983	1982
Automobile Insurance Division	Premiums Written	**$220,337**	$204,127	$195,371	$186,206	$175,073
	Premiums Earned	**215,003**	200,733	189,956	182,131	169,376
	Claims Costs	**244,464**	203,938	178,852	173,511	156,712
	Premium Taxes	**6,541**	6,105	5,746	5,516	4,520
General Insurance Division*	Premiums Written	**$37,050**	$26,668	$20,641	$11,447	$10,456
	Premiums Earned	**34,768**	23,979	19,726	10,841	9,360
	Claims Costs	**26,362**	18,124	12,564	6,423	6,664
	Premium Taxes	**1,610**	1,137	962	659	395

* Excluding reinsurance assumed business.

The Language of Insurance

The following glossary of common insurance terms has been compiled to assist in explaining MPIC's role in providing automobile and general insurance coverage to Manitobans:

ADJUSTER One who investigates and arranges settlement of insurance claims.

AGENT A person who is employed to act on behalf of another. An insurance agent usually has a contract with the insurance company to sell the insurance company's policies to the public.

ALL PERILS COVERAGE Insurance which provides the policyholder with compensation for damages arising from any peril, with the exception of a limited number of specified exclusions.

BENEFIT - The amount paid out under an insurance contract.

CASH FLOW UNDERWRITING - The practice of setting insurance premiums at an artificially low level in order to attract sufficient revenue to generate larger amounts of investment income.

CLAIMANT - An individual who makes a claim against a policyholder or a policyholder who makes a claim against the insurance company.

CLAIMS INCURRED Represents claims paid plus the change in outstanding loss reserves for a given period.

COMPREHENSIVE A term used to describe a policy which covers a large number of possible claims and perils.

DEDUCTIBLE The portion of a claim which the policyholder is responsible for paying.

DEPRECIATION The decline in value of property due to age or use.

ENDORSEMENT A statement added to a policy that modifies its original conditions. For example, a standard fire policy can be extended by endorsement (for an extra premium) to cover vandalism and malicious mischief.

EXCLUSION - A type of loss that a policy specifically sets out as not being covered.

HAZARD - A potential cause of loss which may materially affect the assessment of insurance premiums. For example, the storage of dangerous materials or liquids on an insured property is considered a hazard.

INCURRED BUT NOT REPORTED (IBNR) Losses which have happened but have not yet been reported to an insurer. Also refers to the reserve set aside to pay such claims.

LOSS RATIO Losses incurred expressed as a percentage of earned premiums.

LOSS RESERVES The amount recorded by the insurance company for reported claims that have not yet been settled, plus claims that have been incurred but are unreported.

NO FAULT INSURANCE Coverage for bodily injury or death resulting from an automobile accident, regardless of fault.

PREJUDGMENT INTEREST Interest which is paid on a claims settlement to compensate the claimant for the loss of use of this money between the date of the accident and the date of judgment.

PREMIUM A sum of money paid by the insured party in exchange for the protection offered by the insurance policy.

PREMIUMS WRITTEN The total premium income on insurance policies processed for a given period.

PREMIUMS EARNED The portion of premiums relating to the expired term of each insurance contract for a given period.

PRO RATA TREATY A reinsurance treaty under which the ceding company can decide the percentage of liability to be ceded for each individual risk. In other words, the ceding company may set its own retention in relation to these risks.

PROPERTY/CASUALTY The section of the insurance industry dealing with all or most classes of general insurance, excluding health and life insurance.

QUOTA SHARE TREATY A reinsurance treaty under which the parties to the treaty participate on a proportional basis in each and every risk that comes within the scope of the treaty.

RECIPROCITY The mutual exchanging of insurance risks from one company to another. The object of this practice is to reduce the degree of risk to which an individual company is exposed.

REINSURANCE ASSUMED The practice of another insurance company (the reinsurer) accepting all or part of the insurance written by the original insurer (the ceding insurer). This reduces the potential liability of the original insurance company, which pays a premium to the reinsurer for assuming the risk.

REINSURANCE CEDED The practice of passing on to another insurer (the reinsurer) all or part of the insurance written by the insurer (the ceding insurer) with the object of reducing the possible liability of the latter.

REPLACEMENT COST A coverage which pays the full cost of repairs to or replacement of damaged property without any reduction for depreciation.

RETROCESSION A practice which can be utilized when an insurance company assumes certain reinsurance on a risk and finds that its exposure is higher than the company would prefer. The company may arrange to reinsure part of the risk it has assumed. This further ceding of insurance is known as "retrocession."

RISK A term describing the item or property insured. Sometimes used to designate the hazard or peril insured against.

SUBROGATION The substitution of one person in the place of another with respect to certain rights of claims. An insurance company, having paid a loss for its insured's vehicle under the collision coverage, is subrogated to the insured's rights and may claim against a third party who is responsible for causing the damage.

THIRD PARTY LIABILITY Coverage which protects a policyholder from any claims which may be made against him by another individual.

TREATY A reinsurance agreement, usually involving a general contract for the sharing of a portfolio of risks between insurers.

UNACCEPTABLE RISK The description of a risk which is deemed to be excessively high by an insurance company and is therefore not insurable.

UNDERWRITER An employee of an insurance company who accepts or rejects risks for insurance on behalf of his or her organization.

UNDERWRITING PROFIT/LOSS An insurance company whose earned premiums exceed incurred losses and expenses, before investment income, would show an underwriting profit. The reverse would constitute an underwriting loss.

The Manitoba Public Insurance Corporation

Board of Directors

* Hon. John M. Bucklaschuk, Chairperson
* Nancy J. Sullivan Vice-Chairperson

J. Scott Broughton
R. Jim Dann
Frances Jakeman
* Raynald C. Labossiere
Conrad Santos, M.L.A.
Daniel J. Werbiski

* Members of Audit Committee

Corporate Officers

R.M. Silver, President and General Manager

H.P. Dribnenky, Vice-President, Finance and Administration

B.W. Galenzoski, Vice-President, Corporate Planning and Business Studies

S.S. Kapoor, Q.C., Vice-President, Employee and Corporate Relations/General Counsel

D.R. Kidd, Vice-President, Systems and Information Support Services

T.M. Petrishen, Vice-President, Automobile Insurance Division

Administrative Offices and Claims Centres

HEAD OFFICE
Brandon – 731 - 1st Street, R7A 6C3, 728-7120

ADMINISTRATIVE OFFICES
Winnipeg – Box 6300, 9th Floor, 330 Graham Avenue, R3C 4A4, 942-0331

DRIVE-IN CLAIMS CENTRES
Winnipeg – 445 King Street, R2W 5H2, 949-0872 (MAL→CLAIM)
125 King Edward Street E., R3H 0V9, 783-2114 (MAL→CLAIM)
930 St. Mary's Road, R2M 4A8, 257-8772 (MAL→CLAIM)
420 Pembina Highway, R3L 2E9, 475-1150 (MAL→CLAIM)
1103 Pacific Avenue, R3E 1G7, 944-9602 (MAL→CLAIM)
Brandon – 731 - 1st Street, R7A 6C3, 728-7120 (MAL→CLAIM)
Dauphin – Box 3000, 217 Industrial Road, R7N 2V5, 638-5111 (MAL→CLAIM)
Portage la Prairie – 2007 Saskatchewan Avenue W., R1N 3J9, 857-9751 (MAL→CLAIM)
Selkirk – 630 Sophia Street, R1A 2K1, 482-3839 (MAL→CLAIM)

CLAIMS OFFICES
Flin Flon – Box 250, 8 Timber Lane Road, R8A 1M9, 687-7563
Steinbach – Box 2139, 110 Townline Road, R0A 2A0, 326-4453 (MAL→CLAIM)
Swan River – Box 1959, Highway #10 East, R0L 1Z0, 734-4574
The Pas – Box 9100, Otineka Shopping Mall, R9A 1R5, 623-6489
Thompson – Box 760, 80 Nelson Road, R8N 1N5, 778-7351 (MAL→CLAIM)
Winkler – Box 1990, 600 Memorial Drive, R0G 2X0, 325-9538 (MAL→CLAIM)

COMMERCIAL AUTOMOBILE CLAIMS
Winnipeg – 1981 Plessis Road, Box 32, Group 512, R2C 2Z2, 224-1291

BODILY INJURY CLAIMS CENTRE
Winnipeg – 8th Floor, 330 Graham Avenue, R3C 4A4, 942-0331

GENERAL INSURANCE CLAIMS
Winnipeg – 8th Floor, 330 Graham Avenue, R3C 4A4, 942-0331

SALVAGE
Brandon – 731 - 1st Street, R7A 6C3, 728-7120
Dauphin – Box 3000, 217 Industrial Road, R7N 2V5, 638-5111
Winnipeg – 1981 Plessis Road, Box 32, Group 512, R2C 2Z2, 224-1291

Auditors' Report

The Board of Directors
The Manitoba Public Insurance Corporation.

We have examined the balance sheet of The Manitoba Public Insurance Corporation as at October 31, 1986, and the statements of operations, retained earnings (deficit) and changes in cash and short-term investments for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at October 31, 1986, and the results of its operations and the changes in its cash and short-term investments for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Spicer MacGillivray
Chartered Accountants
Winnipeg, Manitoba
January 9, 1987

Statement of Operations – Automobile Insurance Division

For The Year Ended October 31, 1986

(Thousands of $)

	1986	1985
REVENUE		
Premiums Written	$220,337	$204,127
Premiums Earned	$215,003	$200,733
Investment Income	36,698	35,324
Total Earned Revenues	$251,701	$236,057
CLAIMS COSTS		
Claims Incurred	$219,172	$182,205
Claims Expense – Schedule 1	25,292	21,733
	$244,464	$203,938
EXPENSES – Schedule 1		
Administrative	$ 9,280	$ 7,313
Commissions	10,189	9,376
Premium Taxes	6,541	6,105
	$ 26,010	$ 22,794
Total Claims and Expenses	$270,474	$226,732
Net (Loss) Profit for the Year – Statement 4	$ (18,773)	$ 9,325

Statement of Operations – General Insurance Division

For The Year Ended October 31, 1986

(Thousands of $)

	1986	1985
REVENUE		
Premiums Written	$ 37,050	$ 26,868
Premiums Earned	$ 34,768	$ 23,979
Investment Income	3,152	2,276
Total Earned Revenues	$ 37,920	$ 26,255
CLAIMS COSTS		
Claims Incurred	$ 24,619	$ 16,714
Claims Expense – Schedule 1	1,743	1,410
	$ 26,362	$ 18,124
EXPENSES – Schedule 1		
Administrative	$ 6,246	$ 4,751
Commissions	6,353	4,719
Premium Taxes	1,610	1,137
	$ 14,209	$ 10,607
Total Claims and Expenses	$ 40,571	$ 28,731
Net (Loss) Profit Before Reinsurance Assumed Operations	$ (2,651)	$ (2,476)
Net (Loss) Profit From Reinsurance Assumed Operations (Note 13)	(36,683)	(2,388)
Net (Loss) Profit for the Year – Statement 4	$ (39,334)	$ (4,864)

Balance Sheet As At October 31, 1986

Assets

(Thousands of $)

	1986	1985
Cash and investments maturing within one year (Note 6)	$ 66,308	$ 39,471
Accounts receivable (Note 7)	30,571	30,228
Prepaid expenses and inventories	1,169	1,034
Deferred premium acquisition costs	10,693	9,515
Investments – Schedule 2	279,516	281,755
Property and equipment (Note 8)	12,907	11,848
Organizational expenses (Note 9)	4,748	4,869
	$405,912	$378,720

Liabilities and Retained Earnings (Deficit)

(Thousands of $)

	1986	1985
General accounts payable	$ 3,391	$ 2,990
Provision for accrued charges	18,827	15,731
	$ 22,218	$ 18,721
Automobile Insurance Division		
Accounts payable and accrued charges	$ 4,807	$ 5,322
Unearned premiums	78,489	73,155
Unpaid claims	196,648	166,711
Retained earnings – Statement 4	52,496	71,269
	$332,440	$316,457
General Insurance Division		
Accounts payable and accrued charges	$ 2,577	$ 1,056
Unearned premiums	18,880	15,907
Unpaid claims	74,498	31,946
(Deficit) – Statement 4	(44,701)	(5,367)
	$ 51,254	$ 43,542
	$405,912	$378,720

Statement of Retained Earnings (Deficit)

For The Year Ended October 31, 1986

(Thousands of $)

	1986	1985
AUTOMOBILE INSURANCE DIVISION		
Unappropriated retained earnings at the beginning of the year	$ —	$ —
Net (loss) profit for the year – Statement 1	(18,773)	9,325
Transfer (to) from reserve for catastrophes	—	(3,500)
Transfer (to) from reserve for contingencies	5,300	—
Transfer (to) from reserve for rate stabilization	13,473	(5,825)
Unappropriated retained earnings at the end of the year	$ —	$ —
Appropriated retained earnings		
Reserve for catastrophes (Note 11)	$ 42,000	$ 42,000
Reserve for contingencies (Note 11)	700	6,000
Reserve for rate stabilization (Note 12)	9,796	23,269
	$ 52,496	$ 71,269
Total retained earnings – Statement 3	$ 52,496	$ 71,269
GENERAL INSURANCE DIVISION		
(Deficit) at the beginning of the year	$ (5,367)	$ (503)
Net Loss for the year – Statement 2	(39,334)	(4,864)
(Deficit) at the end of the year	$ (44,701)	$ (5,367)
Total (deficit) – Statement 3	$ (44,701)	$ (5,367)

Statement of Changes in Cash and Short-Term Investments

For The Year Ended October 31, 1986

(Thousands of $)

	1986	1985
RESOURCES PROVIDED FROM (APPLIED TO) OPERATIONS		
Net (loss) profit for the year – Statements 1 and 2	$ (58,107)	$ 4,461
Add adjustments to convert net (loss) profit to a cash basis:		
Depreciation and amortization	1,227	899
	$ (56,880)	$ 5,360
INCREASE (DECREASE) IN RESOURCES		
Accounts receivable	$ (343)	$ (9,894)
Prepaid expenses and inventories	(135)	(74)
Deferred premium acquisition costs	(1,178)	(1,525)
Accounts payable and accrued charges	4,503	3,589
Unearned premiums	8,307	8,012
Unpaid claims	72,489	26,071
	$ 26,763	$ 31,539
RESOURCES PROVIDED FROM (APPLIED TO) INVESTING ACTIVITIES		
Acquisition of property and equipment, net of proceeds from disposals	$ (1,865)	$ (4,275)
Decrease (increase) in long-term investments	2,239	(40,824)
Organizational expenses	(300)	(1,123)
Net increase (decrease) in cash and short-term investments	$ 26,837	$(14,683)
Cash and short-term investments – beginning of year	39,471	54,154
Cash and short-term investments – end of year (Note 6)	$ 66,308	$ 39,471

Schedule of Expenses Incurred

For The Year Ended October 31, 1986

(Thousands of $)

	1986	1985
Amortization of organizational expenses	$ 420	$ 285
Commissions	20,062	17,298
Data processing	2,732	1,452
Depreciation and amortization	807	614
Employee travel and sustenance allowance	531	511
Grants in lieu of taxes	583	481
Health and education tax	425	376
Premium taxes	8,150	7,241
Rent	1,417	1,373
Salaries and employee benefits	31,222	27,096
Other administrative expenses	5,500	3,433
Total expenses incurred	$ 71,849	$ 60,160
Allocation:		
Automobile Insurance Division – Statement 1		
Claims expense	$ 25,292	$ 21,733
Administrative expense	9,280	7,313
Commissions	10,189	9,376
Premium taxes	6,541	6,105
	$ 51,302	$ 44,527
General Insurance Division – Statement 2		
Direct, net of reinsurance ceded		
Claims expense	$ 1,743	$ 1,410
Administrative expense	6,246	4,751
Commissions	6,353	4,719
Premium taxes	1,610	1,137
	$ 15,952	$ 12,017
Reinsurance assumed (Note 13)		
Administrative expense	$ 1,075	$ 413
Commissions	3,520	3,203
	$ 4,595	$ 3,616
	$ 20,547	$ 15,633
Total	$ 71,849	$ 60,160

Schedule of Investments as at October 31, 1986

Description of Securities	Par Value	Book Value
Federal:		
Government of Canada	$ 15,000,000	$ 14,854,000
Provincial:		
Province of Manitoba	$ 89,222,000	$ 88,808,000
Manitoba Hydro-Electric Board	24,502,000	23,222,000
Manitoba Telephone System	21,779,000	21,317,000
Ontario Hydro-Electric Commission	28,500,000	25,417,000
	$164,003,000	$158,764,000
Hospitals:		
Arborg and Districts Health Centre	$ 1,976,000	$ 1,976,000
Baldur Hospital District	155,000	155,000
Brandon General Hospital	1,472,000	1,462,000
Boissevain Hospital District	623,000	623,000
Boyne Valley Hostel Corporation	864,000	864,000
Carman Memorial Hospital District No. 20	2,949,000	2,949,000
Dauphin General Hospital	30,000	30,000
Deloraine Hospital District No. 14	467,000	467,000
The De Salaberry Hospital District No. 27A	151,000	151,000
Flin Flon General Hospital	480,000	480,000
Gimli Hospital District #39	369,000	369,000
Grace General Hospital	731,000	600,000
Hamiota Hospital District #7A	56,000	56,000
Health Sciences Centre	1,682,000	1,618,000
Hunter Memorial Hospital District #33	974,000	974,000
Lakeshore District Health System Inc.	2,388,000	2,388,000
Lakeshore General Hospital District No. 34-A	20,000	20,000
Lynn Lake Hospital District No. 38	69,000	69,000
MacGregor Personal Care Home	77,000	77,000
Manitoba Hospital Capital Financing Authority	3,362,000	3,362,000
Minnedosa Hospital District #8	18,000	18,000
Misericordia General Hospital	454,000	454,000
Morden Hospital District #21	475,000	475,000
Neepawa Hospital District #9	248,000	248,000
Park Manor Personal Care Home Inc.	108,000	108,000
Pine Falls General Hospital	210,000	210,000
Portage Hospital District #18	405,000	405,000
Red River Valley Health District	366,000	366,000
Roblin Health Centre District	640,000	640,000
Rossburn Personal Care Home Inc.	302,000	302,000
Russell Hospital District #8	320,000	320,000
St. Anthony's General Hospital – The Pas	480,000	480,000
St. Boniface General Hospital	40,000	35,000
Ste. Anne Hospital District No. 26A	1,636,000	1,636,000
Ste. Rose General Hospital	402,000	402,000
Seven Oaks General Hospital	2,605,000	2,177,000
Steinbach Hospital District #27	65,000	54,000

Schedule of Investments as at October 31, 1986 continued

Description of Securities	Par Value	Book Value
Swan River Hospital District #1	$ 324,000	$ 324,000
Thompson General Hospital	1,165,000	1,145,000
Tri-Lake Hospital District #15	39,000	39,000
Victoria General Hospital	2,353,000	2,341,000
Victoria South Norfolk-Treherne Hospital District #19	152,000	152,000
Winkler General Hospital	315,000	315,000
Winkler Hospital District No. 23	55,000	51,000
Winnipeg General Hospital	43,000	38,000
Winnipegosis General Hospital Inc.	150,000	150,000
Baldur Manor	275,000	275,000
Betel Home Foundation – Gimli	88,000	88,000
Betel Home Foundation – Selkirk	328,000	328,000
Bethania Mennonite Personal Care Home Inc.	40,000	40,000
Birtle Health Services District	401,000	401,000
Birtle Personal Care Home Inc.	9,000	9,000
B.M.W. Health Facilities Inc.	12,000	12,000
Dauphin Personal Care Home Inc.	322,000	322,000
Ebenezer Home For The Aged	464,000	464,000
Fairview Home Inc.	28,000	28,000
Flin Flon Personal Care Home Corp.	835,000	835,000
Goodwin Lodge Inc.	70,000	70,000
Holy Family Nursing Home-Sister Servants of Mary Immaculate	634,000	634,000
Lorne Memorial Medical Nursing Unit No. 19C	96,000	96,000
McCreary/Alonsa Health Centre	94,000	94,000
Manoir De Ste. Claude	140,000	140,000
Mount Carmel Clinic	1,702,000	1,702,000
North Norfolk MacGregor Medical Nursing Unit District No. 18A	253,000	253,000
Odd Fellows and Rebekahs Personal Care Home Inc.	220,000	220,000
Pinaow Wachi Inc.	145,000	145,000
Portage la Prairie Lions Care Hostel Inc.	51,000	51,000
Riverdale Health Services District	125,000	125,000
Riverdale Personal Care Home	110,000	110,000
Rock Lake Health District	835,000	835,000
Rock Lake Personal Care Home Inc.	205,000	205,000
Rosewood Lodge Inc.	40,000	40,000
Rossburn District Health Centre	595,000	595,000
St. Joseph's Residence	686,000	686,000
Shoal Lake/Strathclair Health Centre	134,000	134,000
Sister Servants of Mary Immaculate – St. Paul's Home	39,000	39,000
Snow Lake Medical Nursing Unit District #40	586,000	586,000
Stonewall & District Health Centre	215,000	215,000
Tabor Senior Citizens Home Inc.	562,000	562,000
Taché Nursing Centre	783,000	783,000
The Pas Health Complex Inc. – St. Paul's Residence	346,000	346,000
The Pas Health Complex Inc. – St. Anthony's General Hospital	477,000	477,000

Schedule of Investments as at October 31, 1986 continued

Description of Securities	Par Value	Book Value
Third Crossing Manor Inc.	$ 80,000	$ 80,000
Wawanesa & District Health Centre	33,000	33,000
Wawanesa Personal Care Home	230,000	230,000
Winnipeg Presbytery Society For Senior Citizens Homes In Winnipeg	40,000	40,000
Winnipegosis-Mossy River Personal Care Home Inc.	320,000	320,000
Whitemouth Medical Nursing Unit District #29A	162,000	162,000
	$ 45,075,000	$ 44,385,000
Schools:		
The Agassiz School Division #13	$ 940,000	$ 940,000
Antler River School Division No. 43	110,000	110,000
Assiniboine South School Division No. 3	256,000	256,000
Beautiful Plains School Division No. 31	56,000	56,000
Brandon School Division #40	766,000	766,000
Churchill School District No. 2264	48,000	48,000
Dauphin-Ochre School Area #1	1,647,000	1,647,000
Duck Mountain School Division #34	775,000	775,000
Flin Flon School Division #46	584,000	584,000
Fort Garry School Division No. 5	503,000	503,000
Frontier School Division No. 48	154,000	154,000
Garden Valley School Division No. 26	2,177,000	2,177,000
Hanover School Division #15	1,367,000	1,367,000
Interlake School Division #21	645,000	645,000
Lakeshore School Division No. 23	331,000	331,000
Leaf Rapids School Division #2460	236,000	236,000
Lord Selkirk School Division No. 11	1,055,000	1,055,000
Midland School Division No. 25	192,000	192,000
Morris-MacDonald School Division No. 19	283,000	283,000
Mystery Lake School Division No. 2355	1,507,000	1,507,000
Norwood School Division No. 8	151,000	151,000
Portage la Prairie School Division #24	1,665,000	1,665,000
Rhineland School Division #18	193,000	193,000
River East School Division #9	746,000	746,000
Rolling River School Division #39	576,000	576,000
St. James-Assiniboine School Division #2	303,000	303,000
St. Vital School Division #6	2,194,000	2,194,000
Seine River School Division #14	1,635,000	1,635,000
Seven Oaks School Division #10	214,000	214,000
Souris Valley School Division No. 42	192,000	192,000
South Winnipeg Technical Centre	872,000	872,000
South Winnipeg Vocational Education Centre	965,000	965,000
Swan Valley School Division #35	273,000	273,000
Tiger Hills School Division #29	863,000	863,000
Transcona School Division #12	241,000	241,000
Western School Division #47	108,000	108,000
Winnipeg School Division No. 1	5,305,000	5,305,000

Schedule of Investments as at October 31, 1986 continued

Description of Securities	Par Value	Book Value
The White Horse Plain School Division #20	$ 595,000	$ 595,000
	$ 30,723,000	$ 30,723,000
Municipal:		
City of Brandon	$ 1,651,000	$ 1,568,000
City of Flin Flon	1,696,000	1,696,000
City of Portage la Prairie	3,924,000	3,898,000
City of St. Vital	46,000	41,000
City of Transcona	139,000	125,000
City of Winnipeg	7,503,000	7,269,000
Metro Corp. of Greater Winnipeg	494,000	411,000
Town of Altona	537,000	537,000
Town of Birtle	62,000	61,000
Town of Boissevain	24,000	23,000
Town of Brandon	31,000	30,000
Town of Carman	480,000	480,000
Town of Dauphin	866,000	866,000
Town of Deloraine	550,000	550,000
Town of Emerson	311,000	311,000
Town of Gimli	116,000	116,000
Town of Gladstone	234,000	234,000
Town of Grandview	268,000	268,000
Town of Hartney	7,000	6,000
Town of Killarney	273,000	273,000
Town of Melita	319,000	319,000
Town of Minnedosa	196,000	189,000
Town of Morden	368,000	368,000
Town of Morris	248,000	248,000
Town of Neepawa	390,000	390,000
Town of Rapid City	106,000	106,000
Town of Rivers	51,000	45,000
Town of Roblin	203,000	202,000
Town of Russell	366,000	366,000
Town of Selkirk	425,000	423,000
Town of Snow Lake	85,000	85,000
Town of Steinbach	1,364,000	1,355,000
Town of Stonewall	265,000	265,000
Town of Swan River	450,000	450,000
Town of The Pas	9,000	8,000
Town of Tuxedo	70,000	64,000
Town of Virden	215,000	215,000
Town of Winkler	36,000	36,000
Town of Winnipeg Beach	52,000	52,000
Village of Arborg	74,000	74,000
Village of Benito	40,000	40,000
Village of Binscarth	73,000	73,000
Village of Ethelbert	11,000	11,000

Schedule of Investments as at October 31, 1986 continued

Description of Securities	Par Value	Book Value
Village of Glenboro	$ 6,000	$ 5,000
Village of Gretna	20,000	20,000
Village of Hamiota	26,000	26,000
Village of Lac du Bonnet	145,000	145,000
Village of MacGregor	78,000	78,000
Village of Manitou	129,000	129,000
Village of Pilot Mound	99,000	99,000
Village of Riverton	8,000	8,000
Village of Rossburn	50,000	50,000
Village of Shoal Lake	163,000	163,000
Village of Somerset	35,000	35,000
Village of Ste. Anne	6,000	6,000
Village of St. Pierre-Jolys	293,000	293,000
Village of Teulon	36,000	36,000
Village of Winnipegosis	41,000	41,000
Rural Municipality of Argyle	35,000	35,000
Rural Municipality of Brenda	50,000	50,000
Rural Municipality of Brokenhead	236,000	236,000
Rural Municipality of Cartier	9,000	9,000
Rural Municipality of Charleswood	18,000	16,000
Rural Municipality of Edward	130,000	130,000
Rural Municipality of Hanover	231,000	231,000
Rural Municipality of La Broquerie	23,000	23,000
Rural Municipality of MacDonald	348,000	348,000
Rural Municipality of Montcalm	170,000	170,000
Rural Municipality of Morris	559,000	559,000
Rural Municipality of Pipestone	11,000	11,000
Rural Municipality of North Norfolk	141,000	141,000
Rural Municipality of Ritchot	391,000	391,000
Rural Municipality of Rockwood	102,000	102,000
Rural Municipality of Roland	117,000	117,000
Rural Municipality of Ste. Rose	18,000	18,000
Rural Municipality of Siglunes	147,000	147,000
Rural Municipality of Springfield	25,000	25,000
Rural Municipality of Taché	22,000	22,000
Rural Municipality of Thompson	35,000	35,000
Rural Municipality of Victoria Beach	36,000	36,000
Rural Municipality of Whitewater	19,000	19,000
Local Government District of Consol	374,000	374,000
Local Government District of Leaf Rapids	2,264,000	2,264,000
	$ 31,274,000	$ 30,790,000
	$286,075,000	$279,516,000

Notes to the Financial Statements, October 31, 1986

1. Status of the Corporation.
The Manitoba Public Insurance Corporation was incorporated as a Crown Corporation under The Automobile Insurance Act in 1970. In 1974 The Automobile Insurance Act was revised and became The Manitoba Public Insurance Corporation Act (Chapter A180, of the continuing consolidation of the statutes of Manitoba).

Under the provisions of its Act, the Corporation conducts a comprehensive automobile program and general insurance business. For financial accounting purposes the automobile and general insurance divisions are regarded as separate operations.

2. Basis of Reporting.
The financial statements of the Corporation are in such form as prescribed by Section 37(1) of The Manitoba Public Insurance Corporation Act and are presented in accordance with generally accepted accounting principles.

3. Comparative Financial Information.
For comparative purposes, certain 1985 balances have been reclassified to conform with the 1986 financial statement presentation.

4. Statement of Changes in Cash and Short-Term Investments.
In order to comply with new recommendations issued by the Canadian Institute of Chartered Accountants, the Corporation has presented a Statement of Changes in Cash and Short-Term Investments. For comparative purposes, the former Statement of Changes in Financial Position (which focused on changes in investments and cash) has been amended to conform with the basis of presentation adopted for the current year.

5. Summary of Significant Accounting Policies.
This summary outlines those accounting policies followed by the Corporation which have a significant effect on the financial statements.

Deferred Premium Acquisition Costs.
Commissions and premium taxes are charged to expense over the terms of the insurance contracts to which such costs relate.

Investments.
Bonds and debentures are carried at cost plus accumulated amortization of discounts and premiums. The applicable discounts and premiums are amortized over the life of the investment.

Depreciation and Amortization.
Depreciation and amortization is provided on a straight-line basis at rates which will amortize the original cost over the estimated useful life of each asset. The annual rates are:

Buildings	2.5%
Organizational expenses	5.0%
Equipment	10.0%
Data processing equipment	20.0%
Automotive equipment	20.0%

Leasehold improvements are amortized over the term of the lease plus the first renewal period.

Pension Plan.
The employees of the Corporation are subject to the Civil Service Superannuation Act and it is the policy of the Corporation to provide for the employer's future pension liability which is fully funded on an indexed basis.

Unearned Premiums.
The liability for unearned premiums is the portion of premiums that relate to the unexpired term of each insurance contract.

Unpaid Claims.
Unpaid claims include a provision for reported unpaid claims, an estimate for unreported claims and a provision for future claims adjusting costs for reported and unreported claims.

Investment Income.
The investment income has been allocated to the automobile and general insurance divisions based on a monthly averaging of the funds available within each division.

Expenses.
The Corporation allocates expenses incurred to the automobile and general insurance divisions on the following basis:

i) Identifiable direct expenses are charged to each division.

Notes to the Financial Statements, (continued)

ii) Where direct allocation is impractical, expenses are allocated to each division based on a proration approved by the Corporation's Board of Directors.

Reinsurance Ceded.

The Corporation's financial statements are prepared net of ceded reinsurance.

6. a) Cash and Investments Maturing Within One Year.

	1986	1985
	(Thousands of $)	
Cash and Investment Certificates	$50,552	$32,388
Bonds and Debentures	15,756	7,083
	$66,308	$39,471

b) As at October 31, 1986 the Corporation has committed $8.8 million (1985 – $125,000) for the purchase of various Manitoba long term securities.

7. *Accounts Receivable.*

	1986		1985	
	Subrogation	Other	Subrogation	Other
	(Thousands of $)			
Accounts receivable	$ 9,806	$27,514	$ 8,355	$27,309
Less allowance for doubtful accounts	5,731	1,018	4,988	448
	$ 4,075	$26,496	$ 3,367	$26,861

8. *Property and Equipment.*

The cost of major classes of property and equipment and the related accumulated depreciation and amortization are:

	Cost	Accumulated Depreciation and Amortization	Net Book Value 1986	Net Book Value 1985
	(Thousands of $)			
Land	$ 2,947	$ —	$ 2,947	$ 2,262
Buildings	9,376	1,635	7,741	7,552
Equipment	3,572	1,931	1,641	1,339
	$15,895	$ 3,566	$12,329	$11,153
Leasehold improvements	1,369	791	578	695
	$17,264	$ 4,357	$12,907	$11,848

9. *Organizational Expenses.*

	Cost	Accumulated Amortization	Net Book Value 1986	Net Book Value 1985
	(Thousands of $)			
Automobile insurance division	$ 4,709	$ 3,296	$ 1,413	$ 1,649
General insurance division	4,019	684	3,335	3,220
	$ 8,728	$ 3,980	$ 4,748	$ 4,869

During the 1983 fiscal year the Corporation initiated a major project for the re-development of the general insurance system. The cost of this project has been capitalized and amortization commenced in the 1986 fiscal year at the straight-line rate of 5% per annum.

10. Prejudgment Interest.

In 1986, the Manitoba Legislature passed the Judgment Interest and Discount Act which provides for the payment of prejudgment interest calculated from the later of the accident date or September 10, 1986 to the date of judgment of the claim. A provision has been established and current year's claims incurred have been increased by $5.3 million to recognize the estimated liability for prejudgment interest on unsettled claims as at October 31, 1986.

11. Reserves for Catastrophes and Contingencies.

These reserves will assist in protecting the Corporation against future catastrophic losses and unforeseen events that may arise.

12. Reserve for Rate Stabilization.

This reserve may be utilized to offset increases in insurance rates or for providing increased benefits under the automobile plan.

13. Net Loss from Reinsurance Assumed Operations.

The Corporation underwrites a portfolio of assumed reinsurance, which accepts a portion of the risk of other insurers. For the year ended October 31, 1986 the results are:

Notes to the Financial Statements,
(continued)

	(Thousands of $) 1986	1985
Premiums written	$ 18,096	$ 15,556
Premiums earned	$ 17,406	$ 13,828
Investment income	2,023	1,807
Total earned revenues	$ 19,429	$ 15,635
Claims incurred	$ 51,517	$ 14,407
Administrative expenses	1,075	413
Commissions	3,520	3,203
Total claims and expenses	$ 56,112	$ 18,023
Net (Loss) Profit from Reinsurance Assumed Operations	$ (36,683)	$ (2,388)

As a result of deteriorating claims development and new information received during the current year, the Corporation recognized the severity of unreported claims, principally in the international pro-rata retrocession line of business, by recording an additional provision for unreported claims of $36.0 million. This line of business has been discontinued and new underwriting guidelines have been established to prevent future participation in the international pro-rata retrocession business. Future participation in the reinsurance business will principally be restricted to the Canadian market.

The unreported claims pertain to previous years but to comply with generally accepted accounting principles the provision must be recorded in the current year's statement of operations and is included in claims incurred of $51.5 million.